



Department of Justice

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**JUSTICE DEPARTMENT GOES TO COURT TO BLOCK LOCKHEED MARTIN'S
PURCHASE OF NORTHROP GRUMMAN**
MERGER IS SINGLE LARGEST EVER CHALLENGED

WASHINGTON, D.C. -- The Department of Justice filed suit today in U.S. District Court in Washington, D.C. to block the acquisition of Northrop Grumman by Lockheed Martin. The proposed merger is the single largest ever challenged by Federal officials. Department officials said that if the merger were allowed to proceed, the U.S. military would suffer a substantial loss of competition and innovation for a number of critical systems and components, including radar for use in military aircraft, sonar systems used on submarines and surface ships, and electronic warfare systems designed to protect pilots from missile attack.

"This merger would cost the taxpayer and take the competitive wind out of the sails of innovation in the production of many critical systems that protect our fighting men and women," stated Attorney General Janet Reno. "We want to ensure that any defense merger protects our soldiers' lives and our taxpayers' wallets."

"This transaction was the most complicated and difficult that we have reviewed to date. No previous merger has raised so many interrelated problems across so many markets. These problems are an outgrowth of the significant consolidation in the defense industry that has taken place in recent years," said Secretary William S. Cohen.

"Competition plays an important role in ensuring that we can purchase the best systems to protect our country," added Joel I. Klein, Assistant Attorney General in charge of the

Department's Antitrust Division. "This merger, in an industry that is already highly concentrated, would completely eliminate competition and reduce innovation in many areas that are vitally important to our national security, ultimately diminishing the quality of the products supplied to the U.S. military."

"We greatly appreciate the assistance of the Department of Defense in investigating this matter," Klein continued. "Justice and Defense are united in the view that the proposed merger should not go forward, and both agencies are committed to ensuring that America's fighting men and women have the best equipment that anyone can develop, at prices that the U.S. military can afford."

Lockheed Martin plans to purchase Northrop Grumman for approximately \$11.6 billion. The two companies currently compete aggressively in the manufacture of military aircraft and several types of radar, sonar, and other electronic systems. Lockheed is the prime electronics integrator for the Navy's attack submarines and Aegis ships, and is the builder of such military aircraft as the F-22 and the F-117. Northrop's products include the B-2 stealth bomber and the E-2C surveillance aircraft. Seventy percent of Lockheed's 1997 sales and eighty percent of Northrop's 1997 sales were made to the U.S. military.

The complaint, filed by the Department of Justice in the United States District Court for the District of Columbia, alleges that the merger would reduce competition in the sale of advanced tactical and strategic aircraft, airborne early warning radar systems, sonar systems, and several types of countermeasures systems that are designed to alert aircraft pilots to threats and help them respond to those threats.

Lockheed and Northrop are two of only three companies capable of serving as prime contractors for advanced tactical and military aircraft, which are high-performance aircraft used

in combat. Many of these aircraft incorporate stealth technology, which inhibits detection by enemy radar. These two firms are the leaders in this technology.

Lockheed and Northrop are the only two companies that make airborne early warning radar systems, which are radar systems that can locate and track thousands of targets at once. Lockheed and Northrop are also among the very few companies with experience and capabilities in certain sonar systems and in certain products designed to locate underwater mines.

If combined, Lockheed and Northrop would be paid nearly twenty-eight percent of DOD's procurement and research and development budget.

The combined company would also be the prime contractor for the production of several military systems, while owning the technology and producing essential inputs to those systems. The complaint alleges that as a result, Lockheed may have the incentive to favor its in-house subsystems over competing subsystems. Lockheed may also have an incentive to sell its subsystems to other companies on unfavorable terms, which would result in those companies being disadvantaged in the competition for certain military platforms.

Lockheed Martin is a Maryland corporation headquartered in Bethesda, Maryland, with 1997 sales of approximately \$28.1 billion. Northrop Grumman is a Delaware corporation headquartered in Los Angeles, California, with 1997 sales of about \$9.2 billion.

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